

GAO

Report to the Honorable
Duncan L. Hunter,
House of Representatives

April 2000

INVENTORY MANAGEMENT

Better Controls Needed to Prevent Misuse of Excess DOD Property



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G A O

Accountability * Integrity * Reliability



United States General Accounting Office
Washington, D.C. 20548

Office of Special Investigations

B-284877

April 28, 2000

The Honorable Duncan L. Hunter
House of Representatives

Dear Mr. Hunter:

This report is part of our continuing effort to address inventory management activities within the Department of Defense (DOD) as a high-risk area¹ because of vulnerabilities to fraud, waste, abuse, and mismanagement. Throughout the United States and overseas, the Defense Reutilization and Marketing Service—a component of the Defense Logistics Agency (DLA)—transfers and disposes of excess DOD property.² The Defense Reutilization and Marketing Service carries out these functions through 72 domestic³ and 27 international Defense Reutilization and Marketing Offices (DRMO). The excess property is available for reuse by DOD agencies and other associated organizations, such as government contractors. The Defense Reutilization and Marketing Service may also transfer property to federal agencies or donate property to qualified organizations. During fiscal years 1996 through 1999, excess property with an acquisition value of \$17.8 billion⁴ was issued through reutilization, transfer, and donation by the Defense Reutilization and Marketing Service.

¹ In 1990, we began a special effort to review and report on the federal program areas we identified as high risk because of vulnerabilities to fraud, waste, abuse, and mismanagement. This effort, supported by the Senate Committee on Governmental Affairs and the House Committee on Government Reform, resulted in a much-needed focus on problems that were costing the government billions of dollars. We identified DOD's inventory management as a high-risk area at that time because levels of unneeded inventory were too high and systems for determining inventory requirements were inadequate.

² Excess DOD property is any property that exceeds the needs of a military service.

³ The number of domestic Defense Reutilization and Marketing Offices includes annexes.

⁴ The total acquisition value for fiscal year 1996 was \$4.08 billion; for fiscal year 1997, \$4.25 billion; for fiscal year 1998, \$5.05 billion; and for fiscal year 1999, \$4.42 billion.

DOD has two database systems that provide accounting and management controls over the transfer and disposal of excess DOD property: (1) the Defense Reutilization and Marketing Automated Information System,⁵ which is used to inventory and manage excess property, and (2) the Defense Automatic Addressing System Center,⁶ which maintains the DOD activity address code master file. As a control mechanism, an activity address code—which is alphanumeric—identifies government entities and other organizations authorized to requisition and receive excess DOD property.

To facilitate our review, we compared the requisitions of property recorded in the Defense Reutilization and Marketing Automated Information System against the Defense Automatic Addressing System Center master file on a particular day and identified 55 questionable activity codes. We viewed these 55 codes as questionable because they did not appear in Defense Automatic Addressing System Center records as being active but were considered valid by the Defense Reutilization and Marketing Automated Information System. We selected two entities with questionable codes for further investigation—the University of Alabama at Huntsville (a government contractor) and a Florida Army National Guard unit. Pertinent information on the 55 activity codes has been provided to the DOD Inspector General and DLA for review and appropriate action.

This report responds to your request that we investigate whether the transfer and disposal of excess DOD property is vulnerable to fraud and abuse because of inaccurate information in DOD's database systems. Specifically, this report discusses (1) the reliability of using DOD's database systems to determine whether activity codes are authorized to obtain excess DOD property and (2) the adequacy of oversight of the management and use of excess DOD property provided to selected universities and a Florida Army National Guard unit where ownership of the property remains with DOD.

⁵ Referred to as DAISY.

⁶ Referred to as DAASC.

Results in Brief

Inadequate control, as a result of inconsistent and incorrect data in DOD's databases, has allowed organizations to obtain excess DOD property to which they may not be entitled. For example, the Defense Reutilization and Marketing Automated Information System contains invalid activity code data; and all activity codes are not recorded in the Defense Automatic Addressing System Center master file. We found that many central service points⁷ for military services and DOD activities do not validate and reconcile their files to the Defense Automatic Addressing System Center master file in a timely manner as required by regulation.⁸ Consequently, the data maintained by the various central service points for military services and DOD activities include activity address codes that are not recorded in the master file.

In our investigation of the University of Alabama at Huntsville, we found that the University had used an invalid activity code to obtain over \$3.5 million⁹ worth of excess DOD property to which it was not entitled. The activity code was associated with an expired contract and it had been deleted several years earlier. In addition, a Florida Army National Guard unit was able to obtain excess property between 1998 and 1999 by using an invalid activity code that had been deleted in 1990. In commenting on the results of our investigation, DLA officials were unable to determine why the Defense Reutilization and Marketing Automated Information System had failed to reject the invalid codes. Further, the activity code used by the University to obtain the excess property was a nonrequisitioning code, indicating that the activity was not authorized to use this code to requisition.¹⁰ DLA officials indicate that this type of code should not be used to obtain property from a DRMO. However, we determined that 65 nonrequisitioning codes had been used to obtain over \$101 million¹¹ in

⁷ Military services, DOD activities, and federal agencies have central service points that assign activity address codes to organizations that are authorized to requisition property from the Defense Reutilization and Marketing Service. These central service points are required to assign activity codes and provide updated code data (additions, changes, and deletions) to the Defense Automatic Addressing System Center.

⁸ Department of Defense 4000.25-6-M (Chap. 1).

⁹ This amount represents the acquisition value of the property.

¹⁰ Army Regulation 725.50, Table E-329 (Format for Army Additions/Revisions to the Department of Defense Activity Address File).

¹¹ This amount represents the acquisition value of the property.

excess DOD property from fiscal year 1995 to the present and that there were no edits in the system to prevent it.

DOD has not exercised adequate oversight of the management and use of excess DOD property provided to selected universities and a Florida Army National Guard unit. When a university obtains excess DOD property for use on a government contract, the property remains under DOD ownership. The university must account for the property, and it is prohibited from using the property for purposes other than those stated in the contract. However, in our investigation of the University of Alabama at Huntsville, we found that the property obtained by the University had not been inventoried as required, a significant portion could not be located, and some of the property had been misused or stolen. The University had also failed to provide pertinent information to government officials, which limited the effectiveness of the officials' oversight activities. Internal DOD studies have identified mismanagement of excess property by other universities. In our investigation of a Florida Army National Guard unit, we found that the unit had failed to follow procedures in place to obtain and account for excess DOD property it had received in 1998 and 1999.

We are making recommendations (1) to help DOD and the military services correct the problems that allow organizations to obtain excess DOD property without proper authorization and (2) to help ensure the proper management and use of excess DOD property provided to universities for government contracts.

Background

The Federal Property and Administrative Services Act of 1949,¹² as amended, places responsibility for the disposition of government real and personal property with the General Services Administration. That agency delegated disposal of DOD property to the Secretary of Defense, who in turn delegated it to DLA. The Office of the Deputy Under Secretary of Defense (Logistics) provides overall guidance for disposing of property, and DLA's Defense Logistics Support Command is responsible for disposal policy. The military services are responsible for determining if certain property they hold exceeds their needs. Once they do so, the Defense Reutilization and Marketing Service carries out disposal functions through DRMOs. Excess property is generally sent to DRMOs for redistribution

¹² 40 U.S.C. § 484.

within DOD and government contractors or transferred to other federal agencies. Property that is not redistributed or transferred is designated as surplus and can be donated to qualified organizations. The property that remains after this process may be sold to the public.

The Defense Automatic Addressing System Center was created in 1965 to address problems with the routing of transactions. Customers—such as the military services, DOD activities, federal agencies, and contractors—use the Defense Automatic Addressing System Center through an interactive network of gateways and databases. The center is linked to over 100 databases and serves over 177,000 customers. To requisition property from a DRMO, a DOD customer must have an activity code. Service points are required to assign activity address codes and provide updated data (activity code additions, changes, and deletions) to the Defense Automatic Addressing System Center. The Center updates the master activity address code file and provides updated information on a daily basis to designated service and agency activities so that they may update their records. DLA applies certain edits through the system to validate the codes.

DLA created the Defense Reutilization and Marketing Automated Information System database in 1990¹³ to provide accounting and management capability for all property in the inventory. In general terms, the system provides for the automated administrative processing of most DRMO operations and operational management. The system is used (1) to process the receipt of property into the inventory and the storage and handling of property under the DRMO's control and (2) to track the disposition of property through reutilization, transfer, and donation; sales; hazardous waste disposal; abandonment; or destruction. The Defense Reutilization and Marketing Service headquarters is responsible for maintaining and updating the Defense Reutilization and Marketing Automated Information System. To do this, it receives updated Defense Automatic Addressing System Center information on a daily basis.

¹³ The system was not available to all DRMOs until 1993.

Inadequate Controls Allowed Organizations to Improperly Obtain Excess DOD Property

Inconsistent and incorrect data in DOD's databases have allowed organizations to improperly obtain excess DOD property. For example, the Defense Reutilization and Marketing Automated Information System contains invalid activity code data. In addition, all codes are not recorded in the agency's Defense Automatic Addressing System Center master file because many central service points do not validate and reconcile their files to the system in a timely manner as required by regulation. Consequently, the data maintained by the various central service points include activity codes that are not recorded in the Defense Automatic Addressing System Center master file. In our investigation of the University of Alabama at Huntsville, the University used an invalid activity code to obtain over \$3.5 million in excess DOD property to which it was not entitled. Further, the activity code used by the University to obtain the excess property was a nonrequisitioning code,¹⁴ indicating that the activity was not authorized to use this code to requisition.¹⁵ DLA officials indicate that this type of code should not be used to obtain property from a DRMO. However, we determined that 65 nonrequisitioning codes were used to obtain over \$101 million¹⁶ in excess DOD property from fiscal year 1995 to the present and there were no edits in the system to prevent it. In addition, the Florida Army National Guard unit we investigated was able to obtain nearly \$24,000 worth of excess property between 1998 and 1999 by using an activity code that had been deleted in 1990.

Inconsistent and Incorrect Data

The two DLA database systems used to determine whether military services, DOD activities, federal agencies, and other organizations are authorized to obtain excess DOD property do not always contain the same information regarding valid and invalid activity codes. The Defense Reutilization and Marketing Automated Information System database contains invalid code data; and all codes are not recorded in the Defense Automatic Addressing System Center master file.

¹⁴ Army activity codes designated as "XU" are not authorized to requisition. The "U" indicates that the activity is not authorized to requisition.

¹⁵ Army Regulation 725.50, Table E-329 (Format for Army Additions/Revisions to the DOD Activity Address File).

¹⁶ This amount represents the acquisition value of the property.

DRMO staff we interviewed incorrectly assumed that activity codes are valid if accepted by the Defense Reutilization and Marketing Automated Information System. This is not the case. Our investigation revealed 55 questionable codes that had acquired DOD property valued at about \$8.5 million from January 1998 through February 1999. These activity codes are questionable because they did not appear in Defense Automatic Addressing System Center master file records as being active but were considered valid by the Defense Reutilization and Marketing Automated Information System. Regarding the 55 questionable codes, we found the following:

- Thirteen activity codes were valid but were not in the database.
- Seventeen military entities with valid activity codes improperly used their unit identification codes¹⁷ as activity codes to acquire DOD property.¹⁸
- Twenty-five activity codes were not valid because they had been deleted or reassigned or could not be located. The acquisition value of the property transferred to the 25 codes from January 1998 to February 1999 totaled approximately \$453,000.

¹⁷ A unit identification code is an alphanumeric code used to identify organizational entities within DOD.

¹⁸ Program officials were unable to explain why the Defense Reutilization and Marketing Automated Information System accepted unit identification codes as valid activity codes. They are currently researching this issue.

Officials of the Defense Logistics Support Command told us that since 1993, the Defense Reutilization and Marketing Automated Information System has had an edit feature that confirms the validity of requisitioning activities' address codes by checking them against the codes in the Defense Automatic Addressing System Center master file. All organizations requesting excess property—either by walking into a DRMO or requisitioning the property electronically—are verified in this way. However, DLA officials told us that many of the central service points have not validated and reconciled their files on a yearly basis, as required.¹⁹ We were told that since 1996, the Marine Corps has been the only military central service point to meet this requirement, which indicates that the activity codes maintained by many central service points are inconsistent with the codes contained in the Defense Automatic Addressing System Center master file. With regard to walk-in customers, we discovered instances in which DRMO staff did not furnish a copy of the completed shipping document to the accountable officer, as required by DOD regulation.²⁰

We advised DLA officials that we had discovered a number of instances in which organizations were using invalid activity codes to requisition excess DOD property and that the Defense Reutilization and Marketing Automated Information System was reporting the codes as valid. These officials reviewed the transactions we had cited and subsequently advised us that they were unable to determine why the Defense Reutilization and Marketing Automated Information System had failed to reject the invalid codes.

Invalid Activity Code Use at the University of Alabama at Huntsville

Our investigation of the invalid activity code assigned to the University of Alabama at Huntsville disclosed that the University used the code to obtain over \$3.5 million worth of excess DOD property to which it was not entitled. In addition, between January 1999 and May 1999, the University improperly used another code to obtain nearly \$80,000 in DOD property.

¹⁹ DOD 4000.25-6-M (Chap. 1).

²⁰ DOD 4160.21-M (Chap. 5).

The University was assigned the activity code for a contract that was awarded in November 1986 to provide engineering support services to the U.S. Army Missile Command.²¹ Although Army records indicate that the assigned code was a nonrequisitioning code, the University reportedly used the code to requisition excess DOD property to facilitate the requirements of the contract. The 1986 contract expired in fiscal year 1991, and the University received a follow-on contract that same fiscal year.²² However, Army central service point records do not indicate that the activity code assigned to the 1986 contract was reassigned to the follow-on contract. In 1993, the Army central service point deleted the activity code for the 1986 contract from its files and the Defense Automatic Addressing System Center master file.²³ Nevertheless, we found that this code was still recorded in the Defense Reutilization and Marketing Automated Information System database as a valid code. Consequently, the University was able to use the activity code provided for the 1986 contract to requisition excess property for the fiscal year 1991 contract. Specifically, between October 1994 and November 1998, the University requisitioned more than \$3.5 million in excess DOD property using this invalid code.

²¹ Contract number DAAH01-87-D-0021.

²² Contract number DAAH01-91-D-R002 was awarded in December 1990 to provide engineering support services to the U.S. Army Missile Command, and it expired in December 1998. Contracting office officials describe this as a follow-on contract to the 1986 contract.

²³ Although the Army record is silent on the reason for the deletion, we believe it was related to a 1993 audit by the Army Audit Agency. From January 1993 through September 1993, the Army Audit Agency reviewed the U.S. Army Missile Command's acquisition and use of government-furnished property. This review was designed to determine, among other things, whether the command adequately controlled government material furnished to contractors. The audit determined that control was lacking and one of the findings noted inadequate control over activity codes. The Army auditors found that the command had lost accountability over material furnished to contractors and Army personnel circumvented established internal controls by extending contractor activity codes past contract completion dates. The audit report recommended that the command improve controls over the use of activity codes by (1) discontinuing the procedure of extending activity codes beyond the expiration of the contract, (2) comparing the expiration dates of all codes with the contract expiration date to identify those with different expiration dates, and (3) changing the activity code expiration date to agree with the expiration date of the contract. The report indicated that in August 1993, the expiration dates of all activity codes were changed to reflect the expiration date of the contract.

In early 1999, a DRMO official questioned the validity of the activity code used by the University of Alabama at Huntsville and contacted the responsible Army contracting officer for guidance. In response, the contracting officer provided the University another activity code to obtain excess DOD property. This code was also assigned to the U.S. Army Aviation Missile Command (formerly the U.S. Army Missile Command). Army regulations regarding the acquisition of government property require that contractors and military commands use different activity codes.²⁴ From January 1999 until May 1999, the University improperly used the activity code it had received in 1999 to obtain nearly \$80,000 in excess DOD property.

**Organizations Used
Nonrequisitioning Activity
Codes to Obtain Over
\$101 Million in Excess DOD
Property**

According to the Defense Automatic Addressing System Center, there are currently 2,723 nonrequisitioning Army activity codes on record.²⁵ According to the Defense Reutilization and Marketing Service, organizations used 65 of these codes to obtain over \$101 million worth of excess DOD property from DRMOs from fiscal year 1995 to the present.

The Army activity code used by the University of Alabama at Huntsville to obtain over \$3.5 million of excess DOD property was a nonrequisitioning category code, indicating that the activity was not authorized to requisition.²⁶ According to DLA officials, this code category should not be used to obtain property from a DRMO. However, Defense Reutilization and Marketing Service staff note that there is only one edit in place in the Defense Reutilization and Marketing Automated Information System that is designed to prevent excess DOD property from being requisitioned or issued through the use of activity codes that are valid only for nonrequisitioning purposes. This particular edit pertains to one specific Air Force code. In all other cases, if an activity code appears in the Defense Automatic Addressing System Center master file as valid, the Defense Reutilization and Marketing Automated Information System will consider the code valid for requisitioning and issuing purposes; and no further edits are applied. According to Defense Automatic Addressing System Center personnel, the automatic addressing system database contains no edit

²⁴ Army Regulation 725.50 (Chap. 9).

²⁵ This total includes Army contractor codes.

²⁶ Army Regulation 725.50, Table E-329 (Format for Army Additions/Revisions to the DOD Activity Address File).

mechanism to prevent an organization from using a nonrequisitioning code to acquire excess DOD property.

Improper Use of an Activity Code by a Florida Army National Guard Unit

Our investigation of the questionable activity code used by a Florida Army National Guard unit revealed that the unit had been using an invalid code to obtain excess DOD property. In 1990, the Army deleted the activity code associated with Company D of the Florida Army National Guard. However, the Defense Reutilization and Marketing Automated Information System accepted this code, and the National Guard unit used it to obtain nearly \$24,000 worth of excess DOD property from June 1998 to June 1999.

Inadequate Oversight of the Management and Utilization of Excess DOD Property

DOD has not exercised adequate oversight of the management and use of excess DOD property provided to selected universities and a Florida Army National Guard unit. Universities did not coordinate requests for DOD excess property; nor did they inventory and track excess DOD property in their possession, as required by the Office of Naval Research—the entity responsible for administrative oversight of university contracts. In our investigation of the University of Alabama at Huntsville, we found that the property obtained by the University had not been inventoried as required, a significant portion could not be located, and some of the property had been misused or stolen. Furthermore, internal reviews of the program have reported similar problems with the use of excess DOD property at the University of Hawaii, the University of Denver, and the University of Rhode Island. In our investigation of a Florida Army National Guard unit, we found that the unit had failed to follow procedures in place to obtain and account for excess DOD property it received in 1998 and 1999.

Regulations Regarding University Acquisition and Use of Excess DOD Property

When a university obtains excess property for use on a government contract, the property remains under government ownership and must be accounted for by the university.²⁷ The Office of Naval Research²⁸ has administrative contract oversight for DOD contracts with universities. According to Office of Naval Research officials, property acquired from a DRMO by a university must not be used for purposes other than what the contract states. Office of Naval Research officials also advised that university contractors must obtain authorization from the Office of Naval Research before obtaining DRMO property and are required to coordinate requests for excess property through that office. Office of Naval Research officials noted that they would then determine, in concert with the government project manager, whether it was appropriate for the university to acquire the property for use on a particular contract. That determination is to be made in accordance with the DOD requirement that requisitioned property be authorized by the DOD contract for which the property will be used.²⁹ If approved, the Office of Naval Research would advise the university to acquire the property.

After obtaining the excess DOD property, a university is required to record the items and identify them as government property. While the Office of Naval Research provides general guidance and parameters to universities on maintaining a property control system, the contractor is responsible for record maintenance. Office of Naval Research officials stated that using property for purposes other than what is stated in the contract is a violation of property control, protection, preservation, and maintenance policies concerning government property management. In addition, university contractors are required to submit a DD Form 1662 annually, which lists the acquisition value of government property provided under contract.

²⁷ FAR 52.245-5.

²⁸ FAR 42.003 provides that subsection G.11 of OMB Circular A-21 lists the cognizant federal agency responsible for the administration of contracts with educational institutions. Here, the Office of Naval Research is identified in Circular A-21 as the cognizant federal agency.

²⁹ DOD 4160.21-M (Chap. 5).

The University of Alabama at Huntsville Improperly Acquired, Tracked, and Used Excess DOD Property

The University of Alabama at Huntsville has a long-standing history of mismanagement of excess DOD property. Historically, the University has not followed government regulations or its own written policy governing the acquisition, tracking, and use of excess DOD property.

The University did not adhere to the requirement in Federal Acquisition Regulation (FAR) 45.505 to inventory and track DRMO property. Moreover, it did not follow the "Obtaining Excess Property or Surplus Property" provision of its *Government Property Control System Manual*. The screener³⁰—who "screens for" or inspects, requests, and obtains excess DOD property—failed to provide copies of DD-1348-1 requisition forms to the Research Administration Office prior to obtaining property. The manual states

"... excess property that is identified as usable on a contract can be requested by completing DD Form 1348 [DD-1348-1]. This form should be submitted to the Research Administration Office with justification as to how it will be used on a designated contract. Research Administration will forward the request to the Property Administrator at the Office of Naval Research for approval."

Further, the University's Associate Vice President for Research confirmed that the Research Administration Office was responsible for ensuring that all material was properly acquired and inventoried.

The University of Alabama at Huntsville screener in charge of obtaining excess DOD property stated that he was aware of the *University's Government Property Control System Manual* but had never read the section entitled, "Obtaining Excess Property or Surplus Property." The screener added that he would meet independently with University researchers who requested specific items and then go to the DRMOs to fulfill these requests, without obtaining approvals from the Research Administration Office or the Office of Naval Research. When we spoke to the screener's then supervisor, the Associate Vice President for Research, about this matter, the supervisor told us that the screener was sometimes "ambitious" in his acquisitions of excess DOD property. However, he stated that he believed that as long as the property could be used on any government contract, the "spirit" of the acquisition procedures was met. The supervisor added that acquisition and reporting procedures at the

³⁰ The screener was the University employee authorized to select and remove excess DOD property. He was hired in 1992 to work in the machine shop and eventually became the machine shop supervisor.

University were "fuzzy" and "loose" and that it was impractical to attribute excess DOD property to a particular contract because the University "had so many government contracts."

The University of Alabama at Huntsville neither inventoried nor tracked the excess DOD property it obtained and dismissed the need to do so. Because the screener failed to provide the University's Research Administration Office copies of the DD-1348-1 forms as required, the property was not included in the government-furnished material inventory. The screener told us, however, that no one ever told him to inventory the excess DOD property. Although the screener kept the DD-1348-1 forms, no one had asked to see them until 1997. At that time, the University's Research Administrator noticed University staff driving around the campus in trucks she had never seen before and asked the screener about them. The screener provided the Research Administrator with the DD-1348-1 forms he had used to acquire the vehicles from a DRMO.³¹ In addition, safes and shredders were improperly located at various offices, laboratories, and workshops on campus; and University personnel used sleeping bags as packing material and new garments as shop rags.

Moreover, the University of Alabama at Huntsville ignored the requirement in FAR 45.505-14 to report annually the total acquisition cost of government property provided under each contract. The DD-1662s (*DOD Property in the Custody of Contractors*) for the fiscal year 1991 contract completed by the University for fiscal years 1996 and 1997 are silent on the existence of DOD property. The DD-1662s for fiscal years 1998 and 1999 list only two items with a total acquisition value of \$2,500. However, DLA records show that the University acquired DOD property and material from DRMOs with an acquisition value of about \$1.1 million in fiscal year 1996; about \$2 million in fiscal year 1997; \$52,631 in fiscal year 1998; and \$78,624 in fiscal year 1999. Based on our investigation, we provided this information to the Office of Naval Research for review and appropriate action.

³¹ By letter dated Apr. 15, 1997, the procurement contracting officer (U.S. Army Missile Command) authorized the University to use these vehicles on any Army contract. However, according to Office of Naval Research officials, this information should have been provided to the administrative contracting officer, in this case an Office of Naval Research official. According to an Office of Naval Research official, this notification did not occur.

In August 1996, the Office of Naval Research reviewed the University's management of excess DOD property and found that it was unsatisfactory in the areas of property management, physical inventories, and movement and disposition of government property.³² A follow-up review in September 1997 concluded that all shortcomings had been addressed. However, at the time of this review, the Office of Naval Research was not aware that the University had obtained a vast amount of excess DOD property. The follow-up review did not take this into consideration, thus hampering the effectiveness of the oversight of the Office of Naval Research.

In July 1998, the University of Alabama at Huntsville's Office of Internal Audit reported the following to the University president: (1) the University lacked internal controls for receiving and transporting excess DOD property, (2) no segregation of duties for receiving and documenting the property was in place, and (3) inventory records were minimal. The audit report recommended that the University take a comprehensive inventory of all federal government surplus property in its possession and that any unused property be disposed of in accordance with government property guidelines. The screener and his supervisor told us that they had been briefed on the audit findings and recommendations. For its part, the University's Research Administration Office ignored recommendations for changes that the internal auditors had made until we began our investigation.

In August 1999, University internal auditors inventoried the excess DOD property obtained by the screener but could not locate most of the property from 977 DRMO transactions. Indeed, of the 256,648 items obtained from DRMOs, the University could account for only 54,561 of the items. The 202,087 missing items included raw materials and consumables (such as building materials, aluminum bars, and cable); equipment (such as a camcorder, oscilloscope, microscope, grinding machine, laser printer, refrigerator, sander, drill machine, generator, typewriters, and copiers); and clothing (such as coats, jackets, combat boots, socks, and undershirts). Also among the missing items were a coffee urn and 10 bunk beds. In addition, the University's screener told us that some excess DOD property had been stolen from the University. The University's Office of Public Safety provided incident reports indicating that material "obtained from

³² The Office of Naval Research tests university record-keeping systems during periodic analyses of property control systems.

federal sources [DRMOs]" had been stolen on a number of occasions. Some stolen items were described as aluminum sheeting and bars.

Mismanagement of Excess DOD Property by Other Universities

During the course of this investigation, we reviewed studies conducted by the Office of Naval Research and the Office of Command Security, Defense Reutilization and Marketing Service that identified mismanagement of excess DOD property by other universities. Many of the same issues that we found at the University of Alabama at Huntsville surfaced, such as the lack of prior approvals, inventories, and a direct relationship between contract requirements and the property obtained. A brief summary of the findings at the University of Hawaii, the University of Denver, and the University of Rhode Island follows.

- University of Hawaii personnel screened for and obtained over \$3 million in excess DOD property. However, Office of Naval Research personnel had not authorized the University of Hawaii to receive any property from the DRMO in Hawaii. The Defense Reutilization and Marketing Service's Office of Command Security determined that conditions conducive to crime existed at the University of Hawaii because no records had been kept of items received from the DRMO. They determined that property could have been stolen or diverted without the knowledge of University personnel. In this case, DRMO officials allowed University personnel to screen for property based on its recognition of screeners without obtaining the proper approvals from the Office of Naval Research.
- Both the University of Rhode Island and the University of Denver acquired excess DOD property through expired contracts. Neither received prior approval from the Office of Naval Research before making acquisitions and both were in possession of government property whose use was questionable for carrying out the contracted research. The major difference between the two is that the Office of Naval Research was able to reconcile the University of Rhode Island inventory of property because the records were in good condition. They were legible, source documentation was complete, and there was a clearly defined audit trail. The Office of Naval Research accounted for 100 percent of the University of Rhode Island property and had it returned to the DRMO or transferred to another agency. In the University of Denver case, however, a full reconciliation of the property record was impossible because the inventory forms were illegible and had no unit prices and no serial numbers.

A Florida Army National Guard Unit Failed to Follow Procedures to Obtain and Account for Excess DOD Property

DOD regulations state that an Army National Guard unit may not obtain excess DOD property without prior approval from the appropriate U.S. Property and Fiscal Officer.³³ The Property and Fiscal Officer processes requests for excess property and then forwards the request for approval. The Property and Fiscal Officer authorizes screeners to inspect, request, and obtain excess DOD property. Screeners then itemize the screened property on a tally sheet and forward the tallies to the Property and Fiscal Officer for approval before property is removed from the DRMO. If the Property and Fiscal Officer approves the property request, a completed property requisition is faxed to the unit, which uses it to obtain the property from the DRMO. The Property and Fiscal Officer is to maintain an inventory of all property obtained by National Guard units.

However, Company D of the Florida Army National Guard in Cocoa, Florida, failed to follow these procedures to obtain and account for nearly \$24,000 worth of excess DOD property it received from June 1998 to June 1999. Company D failed to notify the Property and Fiscal Officer as required and did not obtain permission to take possession of the property. Consequently, the items obtained by Company D were not on record with the Property and Fiscal Officer because he had maintained no inventory or control of the property. Further, DRMO staff ignored the requirement to advise the Property and Fiscal Officer of the property acquisition.³⁴ In this case, Company D of the Florida Army National Guard provided the DRMO an authorization-to-screen letter on agency letterhead with the signatures of the authorizing official and the screener. DRMO officials told us that receiving an authorization-to-screen letter with the required signatures is all a DRMO needs to release the property. These officials said that a DRMO is not a compliance agency and staff do not routinely contact the authorizing official to confirm a letter's authenticity. Although we located the property and determined it was being used appropriately, this situation clearly illustrates system vulnerability.

Conclusions

DOD controls are inadequate to ensure authorized requisition and proper use of excess DOD property. One control weakness is that the central service points for the military services and DOD activities are not

³³ PAM 710-2-1.

³⁴ DOD 4160.21-M (Chap. 5).

periodically updating their inventory and management data in the Defense Automatic Addressing System, especially with regard to DOD activity address codes. In addition, the Defense Reutilization and Marketing Automated Information System fails to reject invalid activity codes. Another control weakness is that DOD does not have a department-wide system to prevent organizations from using nonrequisitioning activity codes to acquire excess property. Finally, controls and procedures to help ensure the proper management and use of excess DOD property provided to universities for government contracts appear to be inadequate.

Recommendations

We recommend that the Secretary of Defense direct

- the military services and DOD activities to comply with regulations that require them to (1) periodically update the inventory and management data in the Defense Automatic Addressing System Center master file, especially with regard to activity address codes, and (2) ensure that their central service points validate and reconcile their activity code files to the Defense Automatic Addressing System Center master file in a timely manner;
- the Director, Defense Logistics Agency, to determine why the Defense Reutilization and Marketing Automated Information System failed to reject invalid activity codes and take corrective measures so that the system will reject invalid activity codes in the future;
- the Deputy Under Secretary of Defense (Logistics) and the military services to develop and implement a system to prevent organizations from using nonrequisitioning activity codes to acquire excess DOD property by including the appropriate edits in the Defense Reutilization and Marketing Automated Information System and the Defense Automatic Addressing System; and
- the Director, Defense Logistics Agency, and the Chief, Office of Naval Research, to assess the adequacy of controls and procedures to help ensure the proper management and use of excess DOD property provided to universities for government contracts.

Agency Comments

DOD provided comments on a draft of this report. DOD concurred with our recommendations and provided clarification on the appropriate agencies responsible for addressing the issues discussed in our report. DOD also provided technical corrections; and where appropriate, we have made those corrections.

Scope and Methodology

We conducted our work from March 1999 to March 2000. We obtained activity code data from DLA on requisitioned excess DOD property recorded in the Defense Reutilization and Marketing Automated Information System. We then compared this data to DLA's Defense Automatic Addressing System Center master activity address code file on a particular day and identified 55 questionable codes. We researched DLA records to determine why organizations using these questionable activity codes were allowed to obtain excess DOD property. We selected two of these organizations for further investigation: the University of Alabama at Huntsville and a Florida Army National Guard unit.

We obtained a list of all DRMO transactions associated with the questionable code used by the University of Alabama at Huntsville from October 1994 through November 1998. We interviewed DRMO staff and obtained copies of pertinent property requisition forms. We interviewed University personnel and reviewed pertinent records. We inspected the University facility in an effort to locate property obtained from DRMOs. We interviewed current and former Army contracting staff and reviewed pertinent contract records at the Army Aviation Missile Command. We interviewed current and former Office of Naval Research staff and also obtained and reviewed pertinent Office of Naval Research records.

We worked with Defense Reutilization and Marketing Service headquarters staff to compile and analyze data pertaining to the Florida Army National Guard unit activity code. We obtained a list of all transactions involving this code as well as photocopies of property requisition forms and authorization-to-screen letters. We interviewed DRMO and Office of the U.S. Property and Fiscal Officer staff concerning policies and procedures and to ascertain their knowledge of this case. We also interviewed all Florida Army National Guard (Company D) personnel involved in this matter. Finally, we reviewed the Company's property records to locate the excess DOD property obtained from DRMOs and conducted a physical inspection of that property.

We worked with Defense Automatic Addressing System Center staff and Defense Reutilization and Marketing Service staff to compile and analyze data pertaining to nonrequisitioning activity codes used to obtain government property from DRMOs. We also worked with Defense Automatic Addressing System Center staff to obtain information pertaining to central service point activities. In addition, we interviewed and obtained pertinent documentation from central service point members.

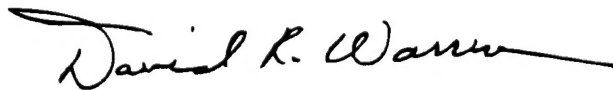
We performed our investigative work in accordance with investigative standards established by the President's Council on Integrity and Efficiency and our audit work in accordance with generally accepted government auditing standards.

As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this report until 30 days after the date on this letter. At that time, we will send copies of this report to interested congressional committees and members; the Office of the Secretary of Defense; the Director of DLA; the Secretaries of the Army, Navy, and Air Force; and the Commandant of the Marine Corps. We will also make copies available to others upon request. If you have questions about this report, please call Robert H. Hast on (202) 512-7455 or David R. Warren on (202) 512-8412. John Ryan, Richard Newbold, Carin Wyche, Mark Little, and Roger Tomlinson made key contributions to this report.

Sincerely yours,



Robert H. Hast
Acting Assistant Comptroller General
for Special Investigations



David R. Warren, Director
Defense Management Issues
National Security and International
Affairs Division